

Promoting Competition, Curtailling Excessive Market Power

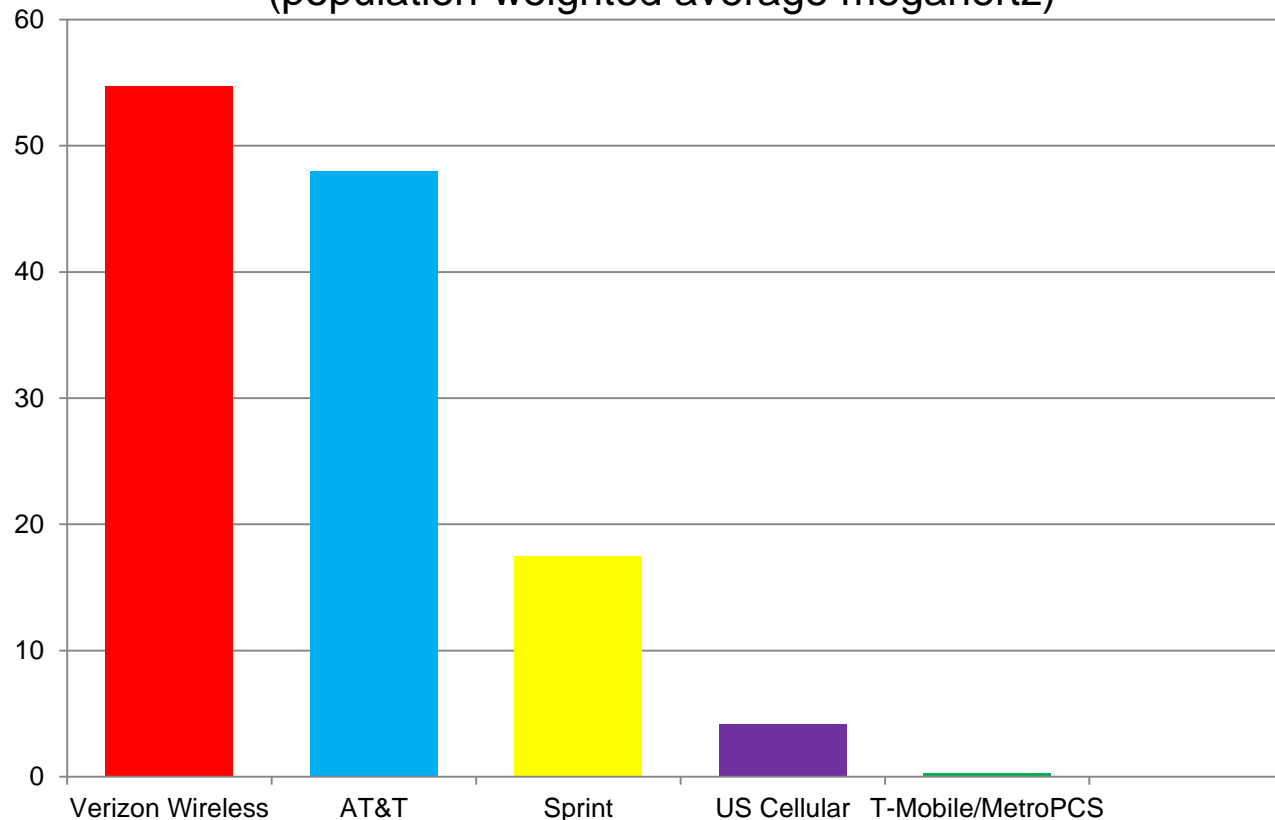
June 2013

Background and Overview

- Current policy on spectrum concentration is outdated and in need of reform
- Restoring a clear spectrum-aggregation rule to the wireless market:
 - mitigates the risk of predation by dominant incumbents to deter market entry;
 - promotes competition;
 - enhances consumer choice;
 - expands auction participation; and
 - increases the likelihood of higher auction revenue and tax receipts.

High Spectrum Resource Concentration

Spectrum holdings below 1 GHz
(population-weighted average megahertz)



Source: Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Mobile Conditions with Respect to Commercial Mobile Services, Sixteenth Report, WT Docket No. 11-186, ¶ 118 (rel. Mar. 21, 2013).

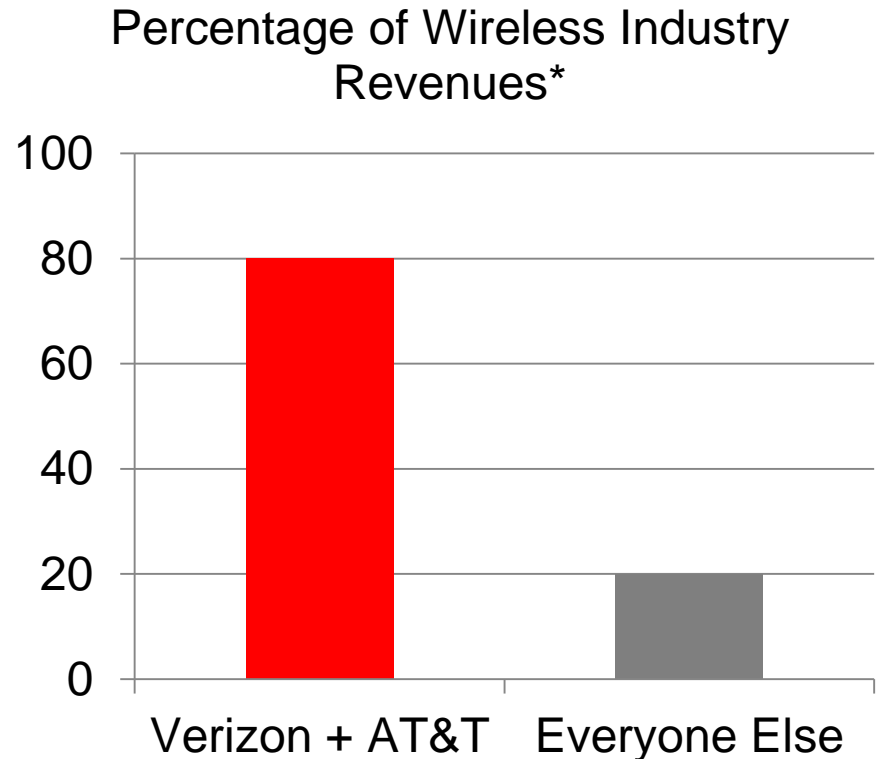
- The nation's two largest wireless carriers have acquired vast amounts of "beachfront" spectrum below 1 GHz while largely avoiding competitive scrutiny
- Verizon and AT&T hold 86% of the below 1 GHz spectrum in the top 10 U.S. markets and more than 80% in the top 50 markets.

Source: Sprint Nextel Comments, WT Docket No. 12-269 (filed Nov. 28, 2012) at 5-6.

High Subscriber and Revenue Concentration

- In 2001, AT&T and Verizon controlled 43% of all U.S. wireless subscriptions
- Today these companies control 66% of all wireless subscriptions and 70% of the lucrative post-paid market

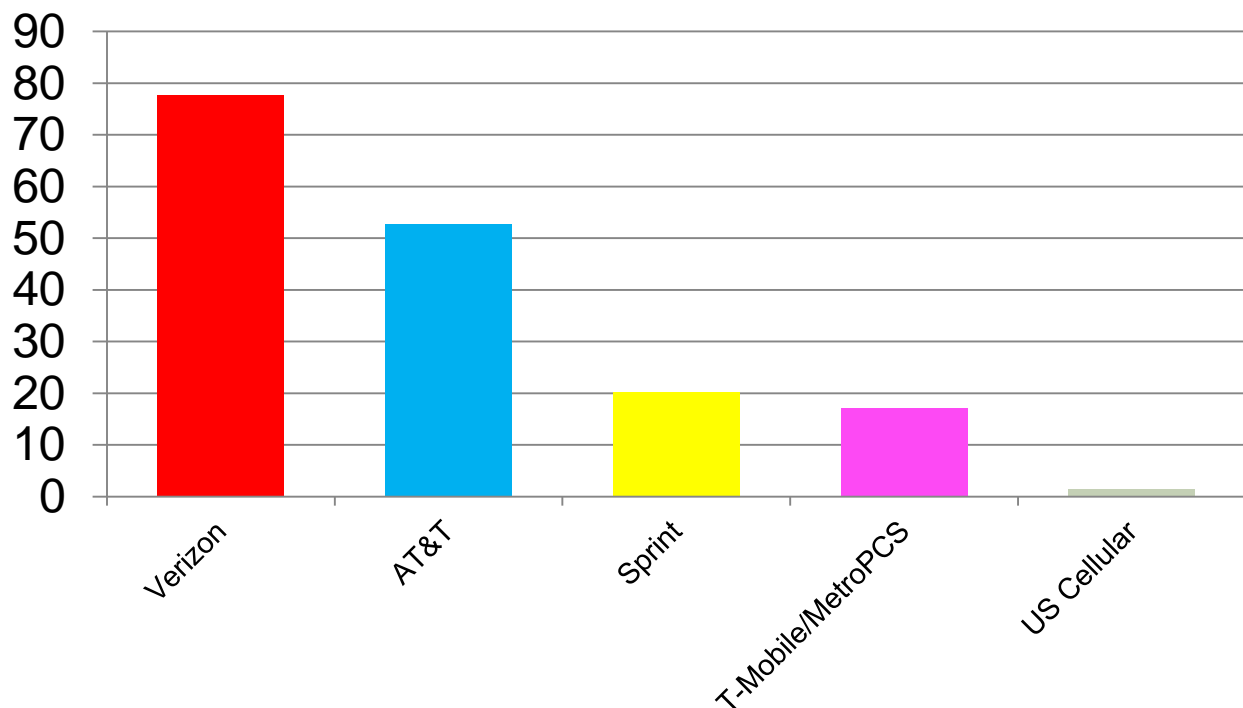
Source: Comments of Free Press, WT Docket No. 12-269 (filed Nov. 28, 2012), at 5 (citing Petition to Deny of Free Press, In the Matter of Applications of AT&T, Inc. and Deutsche Telekom AG For Consent to Assign or Transfer Control of Licenses and Authorizations, WT Docket No. 11-65 (May 31, 2011), at Figure 2 and SNL Kagan Wireless Industry Benchmarks).



Source: Letter from Rebecca Thompson, General Counsel, CCA, et al., to Acting Chairwoman Mignon Clyburn et al., Docket No. WT 12-269 (May 20, 2013) at 2. "Revenue" is used here to refer to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).

High Relative Book Values

Spectrum book value as reported to SEC, in billions



- Spectrum aggregation has allowed the dominant firms to maintain and increase their market power
- The top 2 carriers account for 4/5 of the industry's profits, and this share has increased over the past 3 years while all other carriers' shares have declined

Source: Verizon Communications Inc., Annual Report (Form 10-K), Exhibit 13 at 67 (Feb. 26, 2013); AT&T Inc., Annual Report (Form 10-K), Exhibit 13, at 36 (Feb. 22, 2013); Sprint Nextel Corp., Annual Report (Form 10-K), at F-19 (Feb. 28, 2013); T-Mobile USA, "T-Mobile USA Reports Fourth Quarter 2012 Financial Results," Press Release, at 8 (Feb. 28, 2013); MetroPCS Communications, Inc., Annual Report (Form 10-K), at F-2 (March 1, 2013); United States Cellular Corp., Annual Report (Form 10-K), Exhibit 13, at 31 (Feb. 27, 2013).

Source: Comments of Free Press, WT Docket No. 12-269 (filed Nov. 28, 2012), at 7 (citing SNL Kagan Wireless Financials 2008-2011).

Market Structure and Concentration

- Competitors' acquisition of low-frequency spectrum holdings threatens the dominant incumbents' market power
 - Low frequency spectrum has high “foreclosure value” to the two dominant operators separate from the true economic value of building and operating a network
 - The current level of market concentration increases the ability and incentive for predation by dominant incumbents to deter market entry and decreases the chances that competitive carriers will win low-frequency spectrum auctions
 - Reduced competition not only allows the dominant incumbents to retain and expand their market power, but also may allow them to win auctioned licenses at very low prices
- Promoting a diversity of wireless spectrum holdings now can enhance auction revenue and represents a superior alternative to dominant carrier regulation later

Spectrum Diversity and Consumer Welfare

- Robust competition will diminish and may end unless competitive carriers have a fair opportunity to access low-frequency spectrum resources.
- Adopting a no-nonsense, *ex ante* spectrum aggregation limit:
 - mitigates the risk of predation to deter market entry;
 - increases auction participation;
 - creates the potential for higher auction revenue;
 - promotes investment and innovation;
 - protects FirstNet funding;
 - enhances consumer choice;
 - drives growth in a critical sector of the U.S. economy; and
 - heightens clarity, certainty and predictability for all carriers.